

**REPORT OF THE AUDIT OF THE
HARLAN COUNTY
SHERIFF**

**For The Year Ended
December 31, 2004**



**CRIT LUALLEN
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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Joseph A. Grieshop, Harlan County Judge/Executive
Honorable Steve Duff, Harlan County Sheriff
Members of the Harlan County Fiscal Court

The enclosed report prepared by Douglas R. Wise & Company, PSC, Certified Public Accountants, presents the statement of revenues, expenditures, and excess fees - regulatory basis of the County Sheriff of Harlan County, Kentucky, for the year ended December 31, 2004.

We engaged Berger and Company, CPA, PSC and a member of its consortium, Douglas R. Wise & Company, PSC, to perform the audit of this statement. We worked closely with the firms during our report review process; Berger and Company, CPA, PSC and its subcontractor, Douglas R. Wise & Company, PSC, evaluated the Harlan County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen".

Crit Luallen
Auditor of Public Accounts

Enclosure





The Honorable Joseph A. Grieshop, Harlan County Judge/Executive
Honorable Steve Duff, Harlan County Sheriff
Members of the Harlan County Fiscal Court

The enclosed report prepared by Douglas R. Wise & Company, PSC, Certified Public Accountants, presents the statement of revenues, expenditures, and excess fees - regulatory basis of the County Sheriff of Harlan County, Kentucky, for the year ended December 31, 2004.

Douglas R. Wise & Company, PSC was part of a consortium of firms who contracted with the Auditor of Public Accounts to perform the financial audit of this statement. As the primary firm in the consortium, Berger & Company CPA, PSC worked closely with the firm during our report review process; Douglas R. Wise & Company, PSC evaluated the Harlan County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink that reads "Berger & Company CPA PSC". The signature is written in a cursive, flowing style.

Berger & Company, CPA, PSC

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE HARLAN COUNTY SHERIFF

**For The Year Ended
December 31, 2004**

Douglas R. Wise & Company, PSC has completed the Harlan County Sheriff's audit for the year ended December 31, 2004. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees decreased by \$176,675 from the prior year, resulting in excess fees of \$781,665 as of December 31, 2004. Revenues decreased by \$202,843 from the prior year and expenditures decreased by \$26,168.

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

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The Honorable Joseph A. Grieshop, Harlan County Judge/Executive
Honorable Steve Duff, Harlan County Sheriff
Members of the Harlan County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Sheriff of Harlan County, Kentucky, for the year ended December 31, 2004. This financial statement is the responsibility of the County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Sheriff for the year ended December 31, 2004, in conformity with the regulatory basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated July 13, 2005, on our consideration of the County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Honorable Joseph A. Grieshop, Harlan County Judge/Executive
Honorable Steve Duff, Harlan County Sheriff
Members of the Harlan County Fiscal Court

This report is intended solely for the information and use of the County Sheriff and Fiscal Court of Harlan County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink that reads "Douglas R. Wise & Company PSC". The signature is written in a cursive, flowing style.

Douglas R. Wise & Company, PSC

Audit fieldwork completed -
July 13, 2005

HARLAN COUNTY
STEVE DUFF, COUNTY SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2004

Revenues

Federal Grants

COPS In School Award	\$ 207,513	
Corp of Engineers	6,180	
HDTA	<u>15,882</u>	\$ 229,575

State Fees For Services:

Finance and Administration Cabinet	95,047	
Cabinet For Human Resources	<u>4,425</u>	99,472

Fiscal Court		79,602
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County Clerk - Delinquent Taxes		6,498
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Commission On Taxes Collected		316,969
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Fees Collected For Services:

Auto Inspections	11,505	
Accident and Police Reports	4	
Serving Papers	39,600	
Conveying Prisoners	11,540	
Executions	560	
Carrying Concealed Deadly Weapon Permits	<u>7,005</u>	70,214

Other:

Insurance	1,943	
Reimbursements	1,290	
Fuel Refund	12,489	
Sheriff's Cost and Advertising	6,702	
Sheriff's Add-On Fees	34,754	
Miscellaneous	<u>2,838</u>	60,016

Interest Earned		<u>10,723</u>
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Total Revenues		<u>\$ 873,069</u>
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The accompanying notes are an integral part of this financial statement.

HARLAN COUNTY
STEVE DUFF, COUNTY SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2004
(Continued)

Expenditures

Operating Expenditures and Capital Outlay:

Auto Expense-		
Maintenance and Repairs	\$	670
Other Charges-		
Conventions and Travel	\$	575
Dues		975
Postage		1,764
Bond		469
CCDW		3,485
Miscellaneous		790
Bank Charges		288
Pagers		432
Executions		2,354
		<u>11,132</u>
Total Expenditures	\$	<u>11,802</u>
Net Revenues	\$	861,267
Less: Statutory Maximum		<u>74,232</u>
Excess Fees	\$	787,035
Less: Training Incentive Benefit		<u>5,370</u>
Excess Fees Due County for 2004	\$	781,665
Payments to County Treasurer - Monthly During the Year	\$	<u>781,665</u>
Balance Due Fiscal Court at Completion of Audit	\$	<u><u>0</u></u>

The accompanying notes are an integral part of this financial statement.

HARLAN COUNTY
STEVE DUFF, COUNTY SHERIFF
NOTES TO FINANCIAL STATEMENT

December 31, 2004

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Sheriff as determined by the audit. KRS 134.310 requires the County Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2004 services
- Reimbursements for 2004 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2004

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

HARLAN COUNTY
STEVE DUFF, COUNTY SHERIFF
NOTES TO FINANCIAL STATEMENT
December 31, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Fee Pooling

The Harlan County Fiscal Court approved a fee pooling system for the Harlan County Sheriff. Under the fee pooling system, revenues net of direct expenses of the County Sheriff's Office are paid to the Harlan County Treasurer in the subsequent month. Therefore, the County pays almost all of the expenses of the Harlan County Sheriff's Office.

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.34 percent for the first six months and 8.48 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, and (c) an official record of the depository institution. These requirements were met, and as of December 31, 2004, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of pledged securities held by the Sheriff's agent in the Sheriff's name.

HARLAN COUNTY
STEVE DUFF, COUNTY SHERIFF
NOTES TO FINANCIAL STATEMENT
December 31, 2004
(Continued)

Note 4. Drug Account

The Sheriff maintained a drug account during the calendar year 2004. The drug account had a balance of \$96,196 as of January 1, 2004. Receipts were \$26,708 and disbursements were \$55,678. The Balance as of December 31, 2004 was \$67,226.

Note 5. Federal Grants

COPS In School Award

The Harlan County Sheriff's office was awarded a COPS In School Award grant. During the year ended December 31, 2004, grant funds in the amount of \$207,513 were received.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



The Honorable Joseph A. Grieshop, Harlan County Judge/Executive
Honorable Steve Duff, Harlan County Sheriff
Members of the Harlan County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Harlan County Sheriff for the year ended December 31, 2004, and have issued our report thereon dated July 13, 2005. The County Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Harlan County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Harlan County Sheriff's financial statement for the year ended December 31, 2004, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development, and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink that reads "Douglas R. Wise & Company PSC". The signature is written in a cursive, flowing style.

Douglas R. Wise & Company, PSC

Audit fieldwork completed -
July 13, 2005

